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The Level of Compliance with AAOIFI Standards by Islamic Banks in UAE

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Abstract

The unprecedented growth in Islamic financial products and services, and the emerging orientation that the conventional International Financial Reporting Standards (IFRS) are incompatible with Islamic beliefs and values. This led to the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). However, the actual practice and level of compliance with the AAOIFI standards among Islamic banks in the United Arab Emirates (UAE) are entirely unknown hitherto. Therefore, this study aims to measure the extent of compliance with AAOIFI standards by Islamic banks in the UAE. Via the extensive review of academic publications and document analysis of overarching AAOIFI standards, disclosure items were established and categorized into four: General Corporate Information; Primary Statements; Accounting Policies Statements; and Notes to the Accounts. The 2018 financial statements of 7 Islamic banks in UAE were evaluated to assess their level of compliance with the AAOIFI disclosure items using the unweighted disclosure index. The findings indicate that the level of compliance with AAOIFI on General Corporate Information was very high in all Islamic banks investigated while the Primary Statements; Accounting Policies Statements; and Notes to the Accounts recorded a low level of disclosure. This study contributes to the existing body of knowledge on the aspect of AAOIFI compliance among Islamic financial institutions, especially in UAE, and enlightens the Islamic financial institutions on the areas of AAOIFI that need to be adequately adopted.

Keywords: AAOIFI, Islamic Banks, Level of Compliance, IFRS, Disclosure Index.

1. Introduction

Islamic Financial Institutions (IFIs) were established to provide Muslim communities with shari'ah-compliant financial products and services (Ahmed, et al. 2021). With the upsurge of the global economy, there have been an exponential growth and expansion of IFIs across both Muslim-dominated countries and non-Muslim countries. According to Bank Negara Malaysia's financial report for 2022, there are over 1500 Islamic financial institutions worldwide across 80 countries. The majority of the IFIs' are being operated in the developing world, especially in parts of Africa, Middle Eastern countries, and South-East Asia (Sarea & Hanefah 2013). However, most IFIs still use conventional accounting standards such as the International Financial Reporting Standards (IFRS) for the preparation of financial reports which does not align with the unique Islamic accounting and reporting system (Madah & Rahman, et al. 2021). As reported by IFRS (2021), IFRS provides a single set of high-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards; and at the same time promotes and facilitates the adoption of the standards.

Due to the cost of capital minimization over Islamic accounting standards, most investors prefer an internationally recognized set of accounting standards, like IFRS (Zain, et al. 2021). According to Al-Sulaiti, et al, (2018), investors trading on international capital markets usually prefer to invest in countries with relatively low risk than in developing nations where Islamic accounting standards are mostly practiced, due to a variety of national differences in economic structures, policies, socio-political institutions, geography, and currencies. However, Miarti & Mudzakar (2021), argued that the conventional accounting standards are unsuitable for Muslim users. According to Abonwara, et al., (2021), the mandate on the use of IFRS has caused a significant setback in Islamic banking globally.

Considering the growth of IFIs and the emerging orientation that the conventional financial accounting systems are incompatible with Islamic beliefs and values, the Islamic Development Bank (IDB) established the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Baydoun & Willett 2000).

AAOIFI standards develop accounting, auditing, governance, and ethical thought relating to the activities of Islamic financial institutions taking into consideration the international standards and practices which comply with Islamic Shari'ah rules (AAOIFI 2021). The need for Islamic accounting standards is well entrenched in the principles of the Islamic religion cited in the Holy Quran. For instance, Quran 2: 275 states that "those who eat Riba (usury) will not stand on the day of resurrection, except like the standing of a person beaten by Shaitan (Satan) leading him to insanity." That is because they say: "Trading is only like Ribaˆ (usury)," whereas Allah has permitted trading and forbidden Riba. As a result, the central banks and monetary agencies in many Muslim-dominated countries like the Kingdom of Bahrain, Jordan, and Sudan, require Islamic banks to comply with AAOIFI standards (Mulyany & Furqani, et al., 2021). On the contrary, countries like the Kingdom of Saudi Arabia, and the United Arab Emirates (UAE), among others, do not mandate Islamic banks to comply with AAOIFI regulations (IFRS 2021).

Sarea and Hanefah (2013) attributed this to the dearth of regulatory authorities to implement Islamic accounting standards, as well as the fact that IFIs are not under any obligation to abide by the requirements of Islamic accounting standards in some countries. Although the Dubai Financial Services Authority (DFSA) had earlier permitted financial institutions to use AAOIFI, in December 2012, there was a prohibition on using AAOIFI, and financial institutions that had applied AAOIFI standards were asked to change to IFRS within two years (IFRS 2021). Stakeholders postulated that the main reason for this change was to attract international investors, given that Dubai is the financial hub in the Middle East, and investors will be more confident with popular IFRS accounting standards rather than AAOIFI. To understand the status quo as regards the adoption of AAOIFI, (Sarea, 2013; Al-Sulaiti, & Ousama, et al. 2018; Zain, & Abdullah et al. 2021) investigated the acceptability and compliance levels of IFIs with Islamic accounting standards across developing countries. Similarly, (Ismail & Abdul 2001: Khalid, & Haron, et al., 2018) theoretically examined the extent to which IFIs are adhering to the standards laid out by the AAOIFI.

However, the level of compliance with the AAOIFI standards among Islamic financial institutions in the UAE is entirely unknown hitherto (Ambashe 2020). Thus, El-Halaby, et al., (2020), cited that for successful implementation of AAOIFI accounting standards by Islamic banks in UAE, it is paramount to understand the level of adoption of AAOIFI by evaluating the financial statements of Islamic banks in UAE. Therefore, this study aims to measure the extent of compliance with AAOIFI Standards by Islamic banks in the UAE. This study will contribute to the existing body of knowledge in the aspect of AAOIFI compliance among Islamic financial institutions, especially in UAE, and will enlighten the Islamic financial institutions in UAE on the areas of AAOIFI that need to be adopted, thereby enabling them to attain more compliance with the AAOIFI.

2. Literature Review

Islamic Financial Institutions and Conventional Financial Institutions: A Comparative Analysis

Islamic Financial Institutions (IFIs) and Conventional Financial Institutions (CFIs) are financial institutions systems that both perform financial dealings and serve society. However, the two aforementioned financial institutions have different ideologies and different modes of operations. These distinctive features make them differ from each other. For a more understanding of the differences, this study provides a comparative analysis of IFI and CFI. IFIs commonly referred to as interest-free banking, operate under the tenant of shari'ah law which dictates the jurisdiction of the activity or business coverage for the Islamic banks and other Islamic financial institutions (Komijani, & Taghizadeh-Hesary, 2018; Aulia, & Yustiardhi, et al., 2020). IFIs are not permitted to offer a fixed rate of return on deposits and are similarly not permitted to charge any interest on loans (Hasan & Dridi 2011). Whereas the CFIs operate on human-made principles emanating from the capitalist ideology of profit maximization rather than religious values (Cerović, & Suljić Nikolaj et al. 2017). The conventional bank receives interest from the customers and gives interest where necessary.

The central focus of IFI is justice, and this is achievable through risk-sharing (Hasan & Dridi 2011). IFI's operations are premised on the principle of profit and loss sharing (PLS). The PLS philosophy is premised mainly on two Islamic contracting concepts comprising *mudarabah*, which means profit-sharing and *musharakah*, which implies joint venture (Cerović, et al. 2017; Chong & Liu 2009). In financial contracting, the pre-determined fixed rate of return is not allowed in Islamic banking as practiced in conventional banking, but an uncertain rate of return substitutes it. The basis of profit-sharing is ex-post. The only ex-ante determined is the ratio of profit-sharing between the provider of capital and the entrepreneur (Chong & Liu 2009). This implies that the bank and the depositors take part in the profit or loss of the bank in the agreed and predetermined ratio (Lewis & Algaoud 2001); which is not the case in conventional banking. Islamic Financial Institutions are premised on the five following principles: lack of interest-based transactions, speculation or gharar avoidance, oppression avoidance or zulm, the introduction of Islamic tax or zakat, discouragement of manufacturing of shari'ah prohibited goods, based on Islamic values (Khan, 2010). For instance, investments in businesses such as prostitution, gambling, pornography, sales of tobacco, alcohol, pork, and other related ones are considered to be prohibited by Islam; hence, Islamic Financial Institutions are not permitted to be engaged in such businesses (Chong & Liu 2009). However, conventional banks and other financial institutions prioritize profit maximization and engage in any business that is deemed legal by the law of the land (Cerović, et al. (2017).

The IFRS Foundation is a not-for-profit, public interest organization established to develop a single set of high-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards—IFRS Standards—and to promote and facilitate the adoption of the standards (IFRS 2021). However, the activities and reporting of Islamic Financial Institutions are regulated by the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Vinnicombe 2010). AAOIFI is an Islamic international independent non-profit entity that prepares accounting, auditing, governance, ethics, and shari'ah standards for Islamic Financial Institutions (IFIs) and the industry (Biancone & Shakhatreh 2016).

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Due to the need to develop an accounting standard that complies with shariah standards, the Islamic Development Bank (IDB) established the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI 2022). According to Hussain et al. (2016), the increasing interest of the public towards Islam banking since the 1970s, and Muslims' sensitivity towards the relationship between economy and religion, led to the development and formation of the AAOIFI body to monitor and develop standards that adhere to the Islamic culture and requirements. The AAOIFI was established in Bahrain in 1991 as an international nonprofit organization within the Islamic Shari'ah rules and principles. The objectives of AAOIFI include: developing accounting, auditing, governance, and ethical thought relating to the activities of Islamic financial institutions, taking into consideration the international standards and practices which comply with Islamic Shari'ah rules; disseminating the accounting, auditing, governance, and ethical thought relating to the activities of Islamic financial institutions and its application through training, publication of periodical newsletters, reports, and research; harmonize the accounting policies and procedures adopted by Islamic financial institutions through the preparation and issuance of accounting standards and the interpretations of the same to the said institutions (AAOIFI 2022).

There is a debate on the need for an Islamic accounting standard, given that there are well eminent accounting standards the likes of International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) in practice. Nevertheless, Mulyany, et al, (2021), opined that Islamic accounting standards are needed because Islamic Financial Institutions offer transactions that are not reflected in conventional IFRS and GAAP. Specifically, AAOIFI standardizes and harmonizes international Islamic finance practices and financial reporting following shari'ah (Mohammed et al. 2011). Although other accounting bodies such as the Malaysian Accounting Standards Board (MASB) and Asian-Oceanian Standard Setters Group (AOSSG) do not support the concept of substance over form and time value of money; Nevertheless, AAOIFI standards stand out as it provides fascinating and significant contributions globally, of which MASB and AOSSG are regionally based (AAOIFI 2019). Based on the aforementioned importance of AAOIFI, this study reviews the AAOIFI standards to establish the disclosure items that will help in actualizing the objective of this study. Specifically, document analysis of the overarching AAOIFI standards was reviewed, and disclosure items were identified as shown in Table 1 below.

Table 1: Disclosure Items AAOIFI (2022); Ehsan et al. (2019); Sarea and Hanefah (2013); Sakib (2015)

Scope of the standard and effective date	Main disclosure of the Standard	
a) The standards apply to the process of assets transfer within different investment accounts conducted by institutions. This transfer can be from unrestricted investment accounts to restricted investment accounts, from owners' equity to account holders and vice versa. Effective date 1-1- 2005 or 1st Muharram 1426H	i.	Disclosure shall be made of the accounting policies adopted in the transfer of assets from unrestricted investment accounts to restricted investment accounts and vice versa.
	ii.	Disclosure shall be made of the accounting policies adopted in the transfer of assets from investment accounts (restricted or unrestricted) to owners' equity and vice versa.
	iii.	Disclosure shall be made of the accounting policies adopted in the transfer of assets between restricted investment accounts
	iv.	Disclosures shall be made of the nature and terms of the assets to be transferred, whether these assets are divisible/separable or related to any applied provisions.
	v.	Disclosures shall be made of the commitments and restrictions applied by the contractual relationship between different investment account holders and the institutions, if any.
	vi.	Disclosures shall be made of the movement of the transfer of assets between different investment accounts (including Investment Funds and Owners' Equity), each separately, indicating the balance at the beginning of the financial period, the changes during the current period and the balance at the end of the financial period. Disclosure shall be made of the financial effect of these transfers, if any.
	vii.	Disclosures shall be made of all transfer of assets transactions conducted with related parties, indicating the nature of the relationship, type of transactions, the total value of these transactions at the beginning and end of the financial period, and the financial effects.

Source: Accounting, Auditing and Governance Standards December 2015.

Table 2.1 shows the disclosure items identified after document analysis of the overarching AAOIFI standards; to identify the level of compliance of the disclosure items among the 7 Islamic banks in the UAE, this study firstly reviews the literature on Islamic bank compliance on AAOIFI standards as shown in the section below.

AAOIFI Compliance among Islamic Financial Institutions across the Globe

The rise in globalization and the strong growth in the IFIs, has prompted the question: to what extent Islamic banks across the globe comply with the AAOIFI accounting standards? Numerous studies have been conducted to determine the AAOIFI compliance among Islamic banks across the globe. As reported by AAOIFI (2022), AAOIFI Accounting standards are adopted either fully or partially as mandatory regulatory requirements in jurisdictions such as Bahrain, Jordan, Oman, Pakistan, Sudan, Syria, and Yemen. According to Sarea, & Hanefah (2013), the Islamic banks of Bahrain are in full convergence with AAOIFI accounting standards. It is not surprising because AAOIFI was established in Bahrain in 1991. Although some Banks in Qatar comply with AAOIFI, Al-Sulaiti, et al, (2018) cited that the level of compliance is low compared to countries like the Kingdom of Bahrain and Jordan. According to Sellami and Tahari (2017), the compliance level of AAOIFI category of Primary Statements is high for MENA countries: Bahrain (81%), Qatar (87%), Jordan (89%), Yemen (80%), Palestine (82%), Sudan (85%) and Syria (91%).

Ullah, et al, (2018) investigated the compliance of Islamic banks in Bangladesh, using Islami Bank Bangladesh Limited (IBBL) as a case study. The findings suggested that IBBL has a low compliance rate of 46%. This exposed that the bank is not efficient in managing Shari`ah compliance risks, operational risks, and transparent financial reporting. Despite the benefits of AAOIFI in inculcating Islamic sharia principles to banking, countries like the Kingdom of Saudi Arabia, and the United Arab Emirates (UAE), among others, do not mandate Islamic banks to comply with AAOIFI regulations (Karim 2001).

AAOIFI Compliance by Islamic Banks in the United Arab Emirates

The UAE is a nation that consists of seven emirates or states. It can be considered to be a federation that came to be in 1971 when the following individual emirates agreed to exist together: Dubai, Abu Dhabi, Sharjah, Ajman, Umm al-Qaiwain, Ras al-Khaimah, and Fujairah. The nation's capital known as Abu Dhabi, is located in the emirate of Abu Dhabi (Focus, 2018). The financial institutions both Islamic and conventional that operate in the nation are comprised of domestically owned and foreign institutions that are duly registered (Central Bank of UAE 2019). Categorically, UAE's existing regulations require Islamic banks to adopt IFRS for the preparation of financial statements (Ehsan, et al 2019). At the same time, the applications of AAOIFI reporting standards are voluntary (Central Bank of UAE 2019). Hence, Semicheva (2018), cited that the adoption of AAOIFI among Islamic Banks in the UAE is low due to: the lack of an appropriate and comprehensive regulatory regime and a limited number of specialized resolutions issued at the country level. Besides, the study criticized AAOIFI citing that it is merely a guideline other than enforceable regulation.

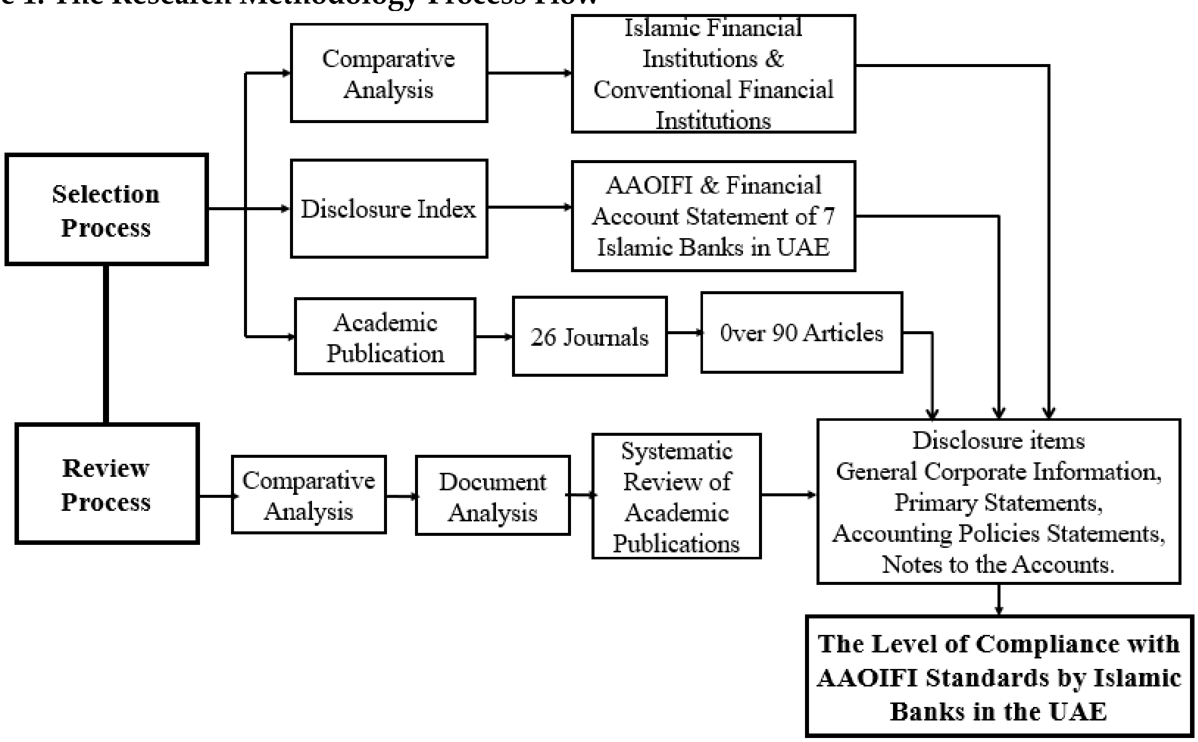
To add additional value to Islamic banks in terms of expansion of customer strength, (Duduki, & Abdullahi 2007; Wakhid & Efrita 2007) suggest that high compliance with AAOIFI standards is paramount. This promotes accountability which is a key motivation for engaging in business with Islamic banks and also serves as a major competitive advantage for Islamic financial institutions (Abdul Rasid, et al. 2011). Besides, Islamic banks stand to benefit tremendously by mandatorily disclosing their financial report following AAOIFI standards because UAE is an Islamic country of Ullah (2013). Therefore, compliance with AAOIFI standard will add additional value to banks in terms of expansion of customers' strength as religion remain an important factor that influences the adoption of Islamic bank (Duduki & Abdullahi 2007; Wakhid & Efrita 2007). Another key motivation for engaging in business with Islamic banks and also serving as a major competitive advantage for Islamic financial institutions is religious accountability (Abdul Rasid, et al. 2011). Then, Islamic banks stand to benefit tremendously by mandatorily disclosing their financial report following AAOIFI standards because UAE is an Islamic country of Ullah (2013).

Tabash, (2019) conducted an empirical Investigation on the Relation between Disclosure and the Financial Performance of Islamic Banks in the United Arab Emirates. The results show a significant relationship between performance and disclosure in the UAE Islamic banks. Amanullah, and Zain, (2018), reviewed the duties and decision-making guidelines of the Sharīʿah Committee in UAE which is prescribed by the AAOIFI. Despite the low adoption of AAOIFI by Islamic banks in UAE, there are limited studies on the level of compliance of Islamic Banks in UAE. According to Ambashe (2020), the actual practice and level of compliance with the AAOIFI standards among Islamic banks in the United Arab Emirates (UAE) are entirely unknown hitherto. Thus, El-Halaby et al (2020), cited that for successful implementation of AAOIFI accounting standards by Islamic banks in UAE, it is paramount to understand the level of adoption of AAOIFI by evaluating the financial statements of Islamic banks in UAE. Therefore, this study aims to measure the extent of compliance with AAOIFI standards by Islamic banks in the UAE.

3. Methodology

This section discusses the methodology adopted to actualize the aim of this study. The methodology of this study follows a comprehensive and systematic approach to evaluate academic publications, documents and standards, and the 2018 financial statements of 7 Islamic banks in UAE. Figure 1 illustrates the research methodology process flow.

Figure 1: The Research Methodology Process Flow



As shown in Figure 1, this study conducted a comprehensive and critical review of related literature, to grasp an understanding of the differences and similarities between Islamic Financial Institutions and their conventional counterpart. Also, the level of compliance with AAOIFI standards by Islamic banks across the globe, including the United Arab Emirates was identified. Then, an analysis of the overarching AAOIFI document was conducted to establish the disclosure items that will help in actualizing the objective of this study. Afterwards, the 2018 financial statements from 7 Islamic banks in UAE were evaluated to assess their level of compliance with the AAOIFI disclosure items.

Review of Academic Publication

First and foremost, this study conducted a critical review of over 90 academic articles from about 26 peer-reviewed academic journals that are within the scope of this research. According to El-Halaby et al (2021), a critical literature review is a methodology that identifies, evaluates, and interprets research relevant to a determined topic area, research question, or phenomenon of interest. Thus, the selection process of academic publications presented in this study draws on the methodology adopted in other review articles, such as Santos, et al, (2022). To make the review results dependable and rigorous, articles from peer-reviewed academic journals were selected with a focus on the aspect of Conventional Financial Institutions (CFIs), Islamic Financial Institutions (IFIs), and AAOIFI compliance by IFIs across the globe.

Via selected Journals, a comparative study of IFIs and CFIs was carried out. As viewed by Miri et al. (2019), a comparative analysis is a broad term that includes both quantitative and qualitative comparison, which describes and explains the similarities and differences of situations or consequences among large-scale social units. Freiberger (2016), argued that the general configuration of every comparative study is constituted by a certain combination of goals, modes, scales, and scopes. In this study, a comparative analysis of IFIs and CFIs was conducted to show their similarities and differences. This enables the understanding of the concept of IFI and how it differs from its conventional counterparts. The comparison was done focusing on the same productive comparative studies and zooms into the same degree for each comparand using the same scale and scope. Afterwards, the previous study on the compliance of AAOIFI by Islamic financial institutions globally was reviewed, with a focus on the United Arab Emirates (UAE). This enabled the researcher to identify the level of compliance with AAOIFI by IFIs, and the factors that promote and hinder compliance globally. Table 2 below shows the articles and journals reviewed in this study.

Table 2: Review Sources of 20 Academic Journals and the Identified Articles

No	Journals	No of Articles
1	Journal of Islamic Marketing	2
2	Journal of Islamic Accounting and Business Research	8
3	International Journal of Multicultural and Multireligious Understanding	3
4	International Journal of Contemporary Management and Information Technology	4
5	Journal of Islamic Economics	4
6	International Journal of Accounting	3
7	International Management Review	3
8	Journal of Islamic Economics, Banking and Finance	3
9	International Journal of Business	2
10	Jurnal Ekonomi dan Keuangan Islam	3
11	Journal of International Commerce, Economics and Policy	5
12	Ekonomskamisaoipraksa	2
13	Journal of Economic Behaviour & Organization	3
14	Journal of Economic Cooperation among Islamic Countries	5
15	International Journal of Arts and Commerce	3
16	Advances in International Accounting,	3
17	Journal of Islamic Economics and Finance Studies	2
18	Finance journal	4
19	Journal of Financial Reporting and Accounting	2
20	Journal of Islamic Accounting and Business Research	3
21	The Journal of Asian Finance, Economics, and Business	4
22	Intellectual Discourse	3
23	Journal of Islamic and Middle Eastern Finance and Management	4
24	Journal of International Commerce, Economics and Policy	4
25	Journal of Management	4
26	Journal of Applied Accounting Research	4

The academic journal and the number of articles reviewed for this study. Afterward, the disclosure items were identified as discussed below.

Disclosure Index

This study adopted the disclosure index to select disclosure items to achieve the aim of this study which is to investigate the level of compliance of Islamic banks in UAE with the AAOIFI standards. Disclosure indices are extensive lists of selected items that may be disclosed in company reports (Hassan & Marston 2010). The disclosure index is predicated on the general principles of content analysis and a well-tested method (Aversano, et al, 2022). Firstly, document analysis of the overarching AAOIFI standard was conducted. Specifically, over 1056 pages of AAOIFI Standards were evaluated to identify disclosure items. Afterwards, the 2018 financial statements of 7 Islamic banks were evaluated to assess their level of compliance with the AAOIFI disclosure items. The sample banks used in this study are Sharjah Islamic Bank (SIB), Abu Dhabi Islamic Bank (ADIB), Dubai Islamic Bank (DIB), Al Noor Islamic Bank (NIB), Al Hilal Islamic Bank (HIB), Emirates Islamic Bank (EIB) and Ajman Bank (AB). The selected banks have the same Islamic-based business transactions namely; *mudaraba, musharakah, salaam, istisna'a, murabaha, ijarah*, and foreign exchange transactions.

After the selection and identification of items for the disclosure index, weights were assigned to the items via the unweighted disclosure index (UDI). According to Sheriff (2015), UDI is preferable compared to the weighted method because it reduces bias and subjectivity. Via the UDI, weight was assigned to the disclosure items using the dichotomous procedure. The dichotomous procedure is an approach in which items are scored one (1) if it is disclosed and zero (0) if a specific bank does not disclose it (Hidayat & AbdulRahman 2013). To identify the disclosure items and their compliance with Islamic banks in UAE, the researcher evaluated the comprehensive AAOFII financial accounting standards along with the 2018 financial statements from 7 Islamic banks in UAE.

4. Results and Discussion

This section tends to measure the level of compliance with AAOIFI financial accounting standards among Islamic Banks in UAE. Via the extensive review of academic publications and document analysis of overarching AAOIFI standards, disclosure items were established and categorized into four: General Corporate Information; Primary Statements; Accounting Policies Statements; and Notes to the Accounts. Then, the 2018 financial statements of 7 Islamic banks in UAE were evaluated to assess their level of compliance with the AAOIFI disclosure items; using the unweighted disclosure index. The 7 Islamic banks include Sharjah Islamic Bank (SIB), Abu Dhabi Islamic Bank (ADIB), Dubai Islamic Bank (DIB), Al Noor Islamic Bank (NIB), Al Hilal Islamic Bank (HIB), Emirates Islamic Bank (EIB), and Ajman Bank (AB). Before constructing the index, it was confirmed from the financial reports that the seven Islamic banks have the same business activities, especially in the aspect of Islamic-based transactions namely; *mudaraba, musharakah, salaam, istisna'a, murabaha, ijarah*, and foreign exchange transactions.

The unweighted disclosure index (UDI) was used to identify the level of compliance of AAOIFI among Islamic Banks in the UAE. The dichotomous procedure was used, whereby each item scores 1 if it is disclosed, and 0 if it is not disclosed. The disclosure items examined in this study were categorized into four classes in the context of AAOIFI financial reporting standard to determine disclosure level which is in line with (Ehsan et al. 2019; Sellami & Tahari 2017) studies that applied the same approach in the context of Pakistan and Bangladesh respectively. Detailed analysis to determine the level of compliance of AAOIFI Financial Accounting Standards among the abovementioned banks is presented below based on the observations obtained regarding the variables.

Analysis of General Corporate Information

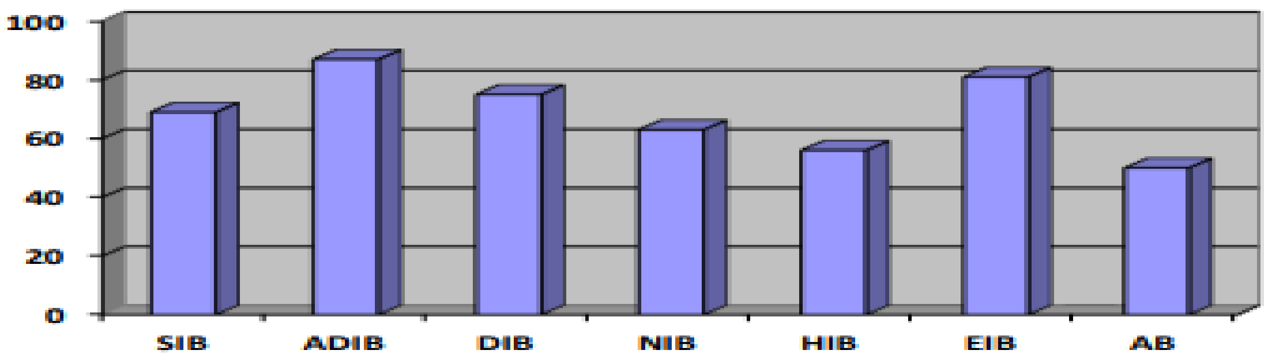
The level of disclosure of General Corporate Information of the seven Islamic banks in the UAE was evaluated to determine the compliance level in financial reporting with AAOIFI standards. The General Corporate Information category consists of 10 Financial Accounting Standards (FAS) as shown in Table 3. Due to inadequate space, this study only presents a summary of the level of compliance of 7 Islamic banks in the UAE on General Corporate Information as shown in Table 3.

Table 3: Level of compliance of 7 Islamic banks in the UAE on General Corporate Information

Banks in UAE	General Corporate Information Disclosure Items Expected Score	Actual Score	Percentage (%)
SIB	16	11	69%
ADIB	16	14	87%
DIB	16	12	75%
NIB	16	10	63%
HIB	16	9	56%
EIB	16	13	81%
AB	16	8	50%

Table 3 above shows the level of compliance of the Islamic banks in the UAE on General Corporate Information (GCI) which ranges 50% to 87% across the banks. The result represents the relationship between the expected disclosure score and the actual disclosure score for these banks. The table is further represented in a bar chart for more understanding and clear interpretation. Figure 2 shows the graphical representation of the data.

Figure 2: Level of compliance of 7 Islamic banks in the UAE on General Corporate Information



As shown in Figure 2, Abu Dhabi Islamic Bank and Emirate Islamic Bank are the two banks that recorded the highest compliance level in this category, with 87% and 81% respectively. On the other hand, Ajman Bank had the lowest compliance level of 50%. On a general scale, it can be concluded that the compliance level of Islamic Banks in the UAE with AAOIFI on General Corporate Information is high because none of the banks recorded a compliance level below 50%. Therefore, this result conformed to most previous studies such as (Ehsan et al. 2019; Sarea & Hanefah 2013), which suggest Islamic banks have a high level of compliance with AAOIFI on General Corporate Information. Specifically, out of the 10 disclosure items of General Corporate Information, eight items indicated high compliance among the 7 Islamic banks in UAE while only 2: FAS 1(para 14) FAS1(Para 9) indicated low compliance. According to Ehsan et al. (2019), one of the major reasons for low compliance with FAS 1(para 14) FAS1(Para 9) could be because financial reporting by AAOIFI standard is voluntary in UAE, and IFRS does not encompass those standards; hence, the decision to disclose and comply with this standard depends on the management.

Primary Statements

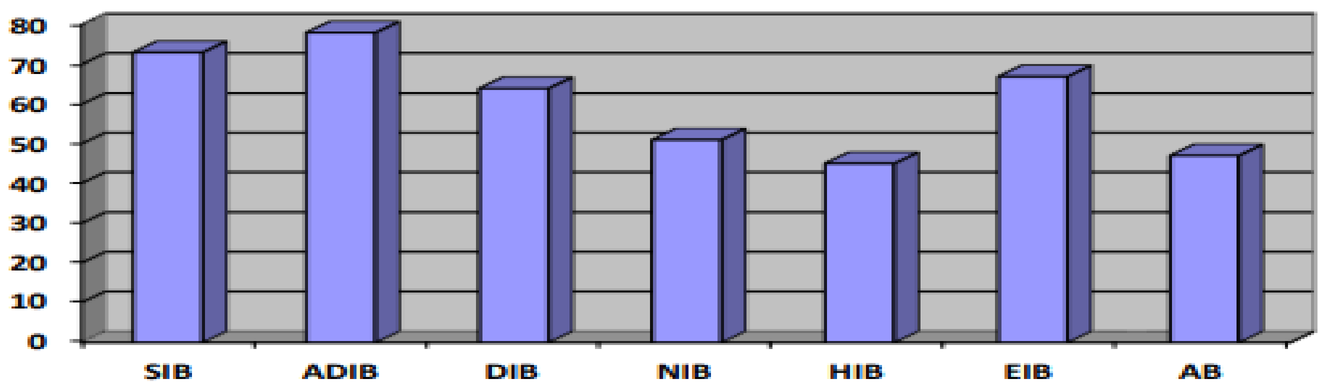
Primary financial statements have been described by the business dictionary as a balance sheet, income statement (profit and loss account), and cash flow statement as well as owner's equity statement that jointly presents the vital data required by a firm's stakeholders (internal and external) to assess its financial position (AAOIFI 2022). The level of disclosure in the primary statements of the seven Islamic Banks in UAE is analyzed and presented in Table 4 below.

Table 4: Level of compliance of 7 Islamic banks in the UAE on Primary Statements

Primary Statements			
Banks in UAE	**Expected Score**	**Actual Score**	**Percentage (%)**
SIB	89	40	45%
ADIB	89	45	51%
DIB	89	40	45%
NIB	89	44	50%
HIB	89	35	40%
EIB	89	44	50%
AB	89	38	43%

According to the primary statement in the table above, the compliance level of the banks was between 40% and 51%, with Abu Dhabi Islamic Bank having the highest disclosure score of 51% and Al Hilal Islamic Bank with the lowest score of 40%. Hence, the compliance level of all the seven Islamic banks in UAE on primary statements is low compared to that of MENA countries: Bahrain (81%), Qatar (87%), Jordan (89%), Yemen (80%), Palestine (82%), Sudan (85%) and Syria (91%) (Sellami & Tahari 2017). The data is represented graphically in Figure 3 below.

Figure 3: Level of compliance of 7 Islamic banks in the UAE on Primary Statements



The findings indicate that the level of compliance of 7 Islamic banks in the UAE on Primary Statements is low. Specifically, the 10 disclosure items in the Primary Statements category indicated low compliance among the Islamic Banks in UAE. The low compliance with AAOIFI could be attributed to Central Bank's policy on AAOIFI adoption in UAE. According to the Central Bank of UAE (2019), the applications of AAOIFI reporting standards are voluntary. Besides, the Dubai Financial Services Authority (DFSA) prohibited the use of AAOIFI, and financial institutions that had applied AAOIFI standards were asked to change to IFRS within two years (IFRS 2021).

Accounting Policies Statements

Policies this section presents the level of disclosure on the Statements of Accounting for the seven Islamic banks in the UAE to determine the compliance level in financial reporting with AAOIFI standards. Accounting policy statements are very important contents that should be disclosed by any business enterprise in their financial accounting report during a specified period (AAOIFI 2022). Therefore, it is considered essential for the Islamic banks in the UAE to disclose these features in their financial accounting report. Concerning the importance of this component in financial reporting, this study established the level of disclosure on accounting policies ‘statements for the seven Islamic banks in UAE to determine the compliance level with AAOIFI financial reporting standards. The outcome is shown in Table 5 below.

Table 5: Level of Compliance of 7 Islamic Banks in the UAE on Accounting Policies Statements

	Accounting Policies Statements		
Banks in UAE	**Expected Score**	**Actual Score**	**Percentage (%)**
SIB	34	20	58.8%
ADIB	34	15	44.1%
DIB	34	15	44.1%
NIB	34	15	44.1%
HIB	34	15	44.1%
EIB	34	16	47.1 %
AB	34	15	44.1%

From the result in the table above, the expected compliance level score is 34 while the actual score falls between 15 to 20. For a clear understanding, the data is represented in a bar chart as shown in Figure 4 below.

Figure 4: Level of compliance of 7 Islamic banks in the UAE on Accounting Policies Statements

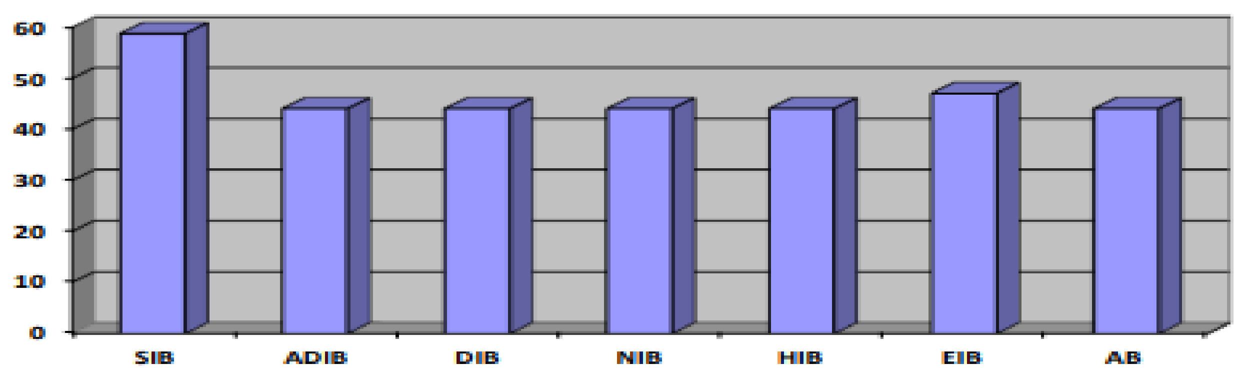


Figure 4 shows that the compliance level of the banks is between 44.1% and 58.8%, with Sharjah Islamic Bank having the highest disclosure score of 20, followed by Emirates Islamic Bank with a disclosure score of 16. In contrast, five banks Abu Dhabi Islamic Bank, Dubai Islamic Bank, Al Noor Islamic Bank, Al Hilal Islamic Bank, and Ajman Bank, had the lowest score of 15. Hence, the corresponding compliance level for Sharjah Islamic Bank was 58.8%, Emirates Islamic Bank's level of compliance was 47.1%, while the remaining five banks recorded a low compliance level of 44.1%. On average, the compliance level of the Islamic banks in the UAE stood at 46.6%, which is very low when compared with banks in MENA countries as suggested by Ehsan et al. (2019). All categories on Accounting Policies Statements witnessed low compliance. The reason for the low compliance of Islamic banks in the UAE is that they are not compelled to adopt AAOIFI, and these banks are preparing their financial statement by using the IFRS rules and principles (Sellami & Tahari 2017). Hence, it could be argued that the level of compliance recorded from Islamic banks of UAE on AAOIFI is because of fundamental similarity between the two standards, that is, AAOIFI and IFRS (Ehsan et al. 2019).

Notes to the Accounts

This section discusses the level of disclosure on notes to the financial accounts and supplementary financial information for the seven Islamic banks in the UAE to determine the compliance level in financial reporting with AAOIFI standards. Sakib (2015) emphasized that notes to the account are a vital requisite to complete financial statements. Notes to the financial accounts and supplementary financial information are an integral part of the financial statements. They must be prepared as well as displayed immediately after the last page of the financial statement to provide information to the stakeholders (Mulyany, et al. 2021). Hence, this category is a very important content of financial accounting reports that should be disclosed by Islamic banks in the UAE during a specified period. Following the suitability of this component in financial reporting, this study investigated the level of disclosure on notes to the financial accounts and supplementary financial information for the seven Islamic banks in UAE to determine the compliance level of financial reporting with AAOIFI standards. This is illustrated in Table 6 below

Table 6 Level of compliance of 7 Islamic banks in the UAE on Notes to the Accounts

	Notes to the Accounts		
Banks in UAE	**Expected Score**	**Actual Score**	**Percentage (%)**
SIB	131	24	18.3%
ADIB	131	24	18.3%
DIB	131	22	16.8%
NIB	131	21	16.0%
HIB	131	25	16.0%
EIB	131	17	19.1 %
AB	131	15	13.0%

Concerning notes to the financial accounts and supplementary financial information table above, the compliance level of the banks was between 13% and 19.1%, indicating that this category has the lowest compliance level for all Islamic banks in UAE when compared with the other three categories. The Emirates Islamic Bank recorded the highest level of compliance with 19.1% and closely followed by Sharjah Islamic Banks and Abu Dhabi Islamic Bank, with both scoring 18.3%. Three banks, Dubai Islamic Bank, Al Noor Islamic Bank, and Al Hilal Islamic Bank, all had equal disclosure scores, which translated to a compliance level of 16%. In contrast, the lowest level of compliance in this category was AB, with 13% from the disclosure score of 17. The result is demonstrated graphically below.

Figure 5: Level of compliance of 7 Islamic banks in the UAE on Notes to the Accounts

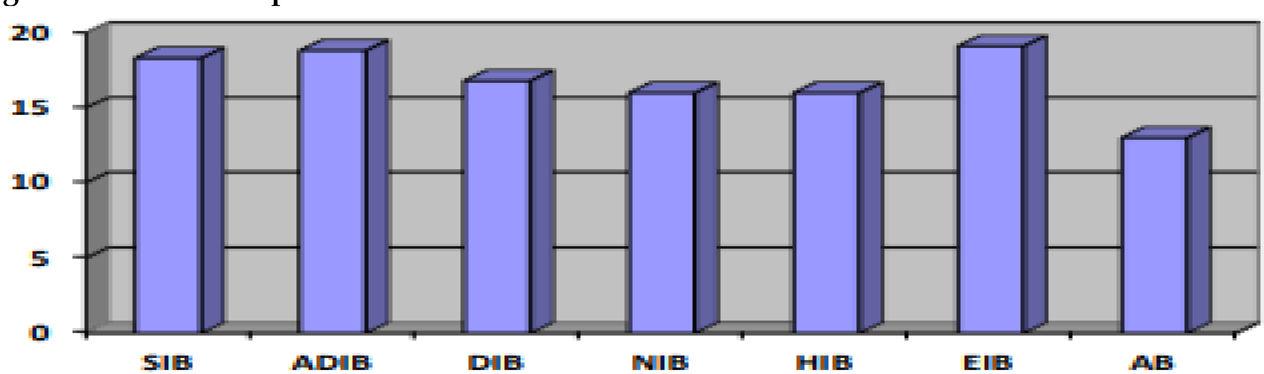


Figure 5 displays the level of compliance of 7 Islamic banks with Notes to the Accounts. As stated earlier, this section has the lowest compliance level, and scholars such as (Sarea & Hanefah 2013; Sakib 2015) suggested enhancing the adoption of AAOIFI by Islamic banks in the UAE requires the policies that mandate AAOIFI application among Islamic banks.

For a detailed discussion, the aggregate level of compliance with AAOIFI standards for all the four categories for each of the seven Islamic banks in UAE is illustrated in Table 7 below.

Table 7: Aggregate Level of Compliance with AAOIFI Standards of the 7 Islamic Banks in UAE

Banks	GCI		PSs		Aps		NAs		Total Score	Actual	Total Score	Required
SIB	11	69%	65	73%	20	58.8%	24	18.3%	120	44.4%	270	100%
ADIB	14	87%	69	78%	15	44.1%	24	18.3%	122	45.2%	270	100%
DIB	12	75%	57	64%	15	44.1%	22	16.8%	106	39.3%	270	100%
NIB	10	63%	45	51%	15	44.1%	21	16%	91	33.7%	270	100%
HIB	9	56%	40	45%	15	44.1%	21	16%	90	31.5%	270	100%
EIB	13	81%	60	67%	16	47.1%	25	19.1%	114	42.2%	270	100%
AB	8	50%	42	47%	15	44.1%	17	13%	82	30.4%	270	100%
Mean	11	69%	54	60.7%	15.9	46.8%	22	16.8%	103	38.2%	270	100%

As shown in Table 7, neither of the seven banks recorded a disclosure level of 50% on aggregate for the four categories. The result for aggregate disclosures ranges from 30.4% to 45.2% for all seven Islamic banks. This did not comply with the expectations that presumed that all Islamic banks should have a high compliance level with AAOIFI reporting standards (AAOIFI 2022). The result is a true reflection that AAOIFI is not the official reporting standard in UAE; hence its adoption by Islamic banks is not. Mandatory in the country (Sarea, 2012). The table indicates that Abu Dhabi Islamic Bank, Sharjah Islamic Bank, and Emirate Islamic Bank recorded the highest compliance level on the aggregate level above 40%. Furthermore, Dubai Islamic Bank, Al Noor Islamic Bank, and Al Hilal Islamic Bank recorded 39.3%, 33.7%, and 31.5% respectively on aggregate compliance levels. In comparison, Ajman Bank recorded the lowest level of compliance on aggregate with 30.4%. It can be concluded that the compliance level of the banks in UAE is low when compared with other Islamic countries like Bahrain (62%) (El-Halaby & Sarea, 2012).

5. Conclusion and Recommendations

This study explored the level of compliance with AAOIFI by Islamic banks in UAE through the disclosure index. To achieve this, a comprehensive review of academic publications, and document analysis of AAOIFI standards, and 2018 financial statements of 7 Islamic banks were carried out. Using an unweighted disclosure index to analyze the data, it was discovered that the level of compliance with AAOIFI on general corporate information and cash flow statement was very high in all Islamic banks investigated, the index of notes to the accounts, statements of accounting policies, and composition of primary statements recorded a low level of disclosure.

However, it is absolutely essential to note that IFRS is the mandatory financial reporting standard that every bank in the UAE should adopt and comply with. In contrast, the application of the AAOIFI reporting standard is voluntary. This study contributes to the existing body of knowledge on the aspect of AAOIFI compliance among Islamic financial institutions, especially in UAE; and also enlighten the Islamic financial institutions on the areas of AAOIFI that need to be adequately adopted. More studies need to be conducted to seek the perception of stakeholders.

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